

Farm Service Agency  
100 USDA, Suite 102  
Stillwater, OK 74074-2653

1962-A

**For:** County Offices**Releases for Essential Family Living and Farm Operating Expenses****Approved by:** State Executive Director**1 Overview**

**A Background** FmHA Instruction 1962.17 provides regulations covering disposal of security and use of proceeds. Sub-section (b) of this regulation specifically addresses releases for essential family living and farm operating expenses.

**B Purpose** The purpose of this notice is to provide guidance in obtaining the necessary information to determine whether releases are essential, especially for borrowers who are unable to develop feasible cash flows. If the cash flow is not feasible, we must still continue to release for essential expenses until the account is accelerated.

**C Contact** Any questions concerning this notice should be directed to the Farm Loan Programs Section in the State Office.

Disposal Date	Distribution
May 1, 2003	County Offices

## 2 Action

---

Regulations require that we release proceeds from the sale of normal income security to pay **essential** family and farm operating expenses until the account is accelerated. These releases must be approved by the Farm Loan Manager on Form FSA 1962-1, Agreement for the Use of Proceeds/Release of Chattel Security. However, the borrower is responsible for providing the FLM with the necessary information to update the farm plan and Form FSA 1962-1. No releases can be made unless there is a current, signed farm plan and Form FSA 1962-1. The only exception to this rule is outlined in FmHA Instruction 1924.56(b)(4).

The farm plan that the borrower provides must reflect repayment for the amount that will be released so there must be a determination of how much that total amount will be. If the borrower is holding crops and/or livestock for sale, the farm plan and Form FSA 1962-1 must reflect the marketing plan for the security. The breakdown on Form FSA 1962-1 must reflect the amount (bushel, head, etc.) and time of sale in addition to the proceeds to be received. Also, the use of the proceeds must be specified. A lump sum amount listed as "operating expense" is NOT ACCEPTABLE. This amount must be itemized as if a new loan were being made.

The determination of what is essential family living and farm operating expenses is a judgment call. FmHA Instruction 1962.17(b)(2)(ii) provides guidelines as does Exhibit E of FmHA Instruction 1962-A, but the list cannot be considered as a hard and fast rule for everyone. Not all the items in the listing will always be essential for every operation. For example, rent may not be an essential expense if the rent is for marginally productive land that the borrower has been advised to let go. Requests by the borrower for sale proceeds to be released for family and farm operating expenses should not AUTOMATICALLY be approved. Refusal to release sale proceeds is appealable.

The borrower must understand that released sale proceeds used for operating expenses for the next crop year will give FSA a lien on the next year's crop production. Unless security has changed, FSA is not legally required to obtain a new security agreement as long as the financing statement is valid.

---